

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Planned Parenthood Los Angeles ("PPLA") 1920 Marengo Los Angeles, CA 90033 Los Angeles County		Amount Requested: \$400,000	
		Requested Loan Term: 5 years	
		Date Requested: February 26, 2004	
		Resolution Number: HII-157	
Project Site: 8520 Broadway, Los Angeles, California			
Facility Type: Community clinic			
Policy Issue: Due to insufficient collateralization of real property, this proposed loan falls outside the normal HELP II financing parameters. However, staff recommends approval for the reasons outlined on the following page.			
Use of Loan Proceeds: Loan proceeds will be used to renovate a leased facility and purchase equipment.			
Type of Issue:		HELP II Loan	
Prior HELP II Borrower:		No	
Financial Overview: PPLA's operating cash flow fluctuates significantly from fiscal year to year, but overall its operations are successful, as its net asset base has increased during our review period from \$8.5 million in 2001 to \$10.4 million in 2003. PPLA's balance sheet is strong with significant financial resources, minimal long-term debt and projections for a very strong debt service coverage.			
Sources of Revenue:		<u>Amount</u>	<u>Percent</u>
<i>(FYE 6-30-03)</i>			
Clinic and Counseling fees		\$11,965,808	71.0%
Contributions		1,726,966	10.2%
Special events and benefits, net		1,143,637	6.8%
Bequests		810,670	4.8%
Net assets released from restrictions		523,376	3.1%
Government grants		316,862	1.9%
Other		<u>360,720</u>	<u>2.2%</u>
Total revenue		<u>\$16,848,039</u>	<u>100.0%</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
Donation*	\$268,000	Renovation of leased facility	\$460,000
HELP II loan	400,000	Equipment purchase	275,000
Borrower's funds	<u>72,000</u>	Financing costs	<u>5,000</u>
Total Sources	<u>\$740,000</u>	Total Uses	<u>\$740,000</u>
* Applicant has received donation.			
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$400,000 for a term not to exceed 5 years for Planned Parenthood Los Angeles subject to the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

**Planned Parenthood Los Angeles
("PPLA")**

February 26, 2004

Resolution Number: HII-157

POLICY ISSUE: Eligibility for HELP II financing requires that an organization provide real property or equipment collateral with a value of approximately 105% of the loan amount. PPLA is seeking this loan to renovate a *leased* property and purchase equipment, thus, only equipment can be collateralized. Due to PPLA's solid financial position, staff is recommending an exception to the standard HELP II policy. The proposed financing will result in PPLA providing collateral of only 68% of the loan amount, with approximately \$275,000 of the loan to be secured by the financed equipment. Given PPLA's absence of real property to secure the renovation portion of the loan, staff recommends securing the remaining 32% (\$125,000) of the loan amount with \$25,000 of borrower funds (equivalent to 12 monthly payments for the renovation portion) to be deposited in a debt service reserve fund at loan closing. This funding of a reserve fund is consistent with prior HELP II loans to borrowers with a similar inability to pledge real property.

I. PURPOSE OF FINANCING: Loan proceeds will be used to renovate a leased facility and purchase equipment.

***Renovate facility*.....\$460,000**

PPLA plans to renovate and open a new reproductive health center to service the South Los Angeles area. The 8,830 square foot center is scheduled to open in the spring of 2004. The center will have three exam rooms and two surgical rooms. Clinical services offered at the site will include FDA-approved contraception methods, gynecological and breast exams, cancer screening, pregnancy tests, pregnancy options counseling, adoption referral, abortion, emergency contraception, sexually transmitted infection detection and treatment, colposcopy, cryosurgery, LEEP and mid-life services.

***Purchase equipment*275,000**

PPLA is purchasing a variety of medical and office equipment needed to furnish the new clinic site. Some of the equipment includes exam tables, office furniture and colposcopy kits, and speculums.

***Financing Costs* 5,000**

Authority Fee5,000

***Total*.....\$740,000**

Financing structure:

- 5-year fully amortized loan in the amount of \$400,000.
- 60 equal monthly payments of approximately \$7,188 (total annual payments of \$86,256).
- Total interest payments of approximately \$31,249.
- Debt service reserve of \$25,000, since the property is leased and not owned.
- Lien on equipment.
- Verification of 5-year lease.

FINANCIAL STATEMENTS AND ANALYSIS:

Planned Parenthood Los Angeles Statement of Activities Unrestricted

	<u>Period</u> <u>Ended</u>	<u>For the Year Ended June 30,</u>		
	<u>December 31,</u>	<u>2003</u>	<u>2002</u>	<u>2001 *</u>
	<u>2003</u>			
	<u>(unaudited)</u>			
Revenue, gains and support				
Clinic and counseling fees	6,300,995	\$11,965,808	\$12,583,510	\$11,243,726
Contributions	2,615,596	1,726,966	1,883,366	1,745,117
Government grants	437,368	316,862	1,031,020	843,411
Bequests	-	810,670	430,930	-
Patient donations	106,766	183,787	204,326	227,107
Seminar revenue	-	130,038	127,267	-
Special events and benefits, net	185,111	1,143,637	465,075	441,585
Interest and dividends	-	122,123	143,387	-
Realized losses on sales of investments	-	(184,584)	(230,518)	-
Unrealized gains/losses on investments	-	109,356	(213,112)	-
Investment income	106,362	-	-	(230,490)
Other income	63,913	-	-	51,490
Net assets released from restrictions	-	523,376	1,414,852	955,218
Total revenues	<u>9,816,111</u>	<u>16,848,039</u>	<u>17,840,103</u>	<u>15,277,164</u>
Expenses				
Salaries and wages	3,366,977	6,936,261	6,784,454	6,790,366
Payroll taxes	271,460	506,688	528,241	529,301
Employee benefits	445,882	957,761	771,602	575,483
Clinicians	447,859	960,830	987,708	-
Casual labor	192,833	458,164	349,472	-
Accounting	-	69,062	37,370	-
Advertising	22,799	341,612	313,133	283,869
Automobile lease	2,953	5,905	5,861	-
Bad debt	-	198,624	-	-
Bank charges	-	8,836	-	-
Conferences and conventions	-	296,355	244,885	-
Depreciation and amortization	251,787	658,646	690,322	689,412
Dues	134,721	195,311	299,268	279,286
Educational materials	39,190	128,325	119,911	49,934
Equipment maintenance	257,431	397,929	454,307	-
Insurance	219,317	472,400	409,718	308,181
Interest	15,484	39,549	40,009	53,432
Investment	13,801	-	46,535	-
Lab tests	90,297	224,365	330,427	-
Marketing	58,170	36,201	-	-
Miscellaneous	16,801	95,280	49,828	1,025,710
Postage and shipping	37,922	78,314	148,706	-
Printing and publications	79,344	193,481	209,480	-
Professional services and contract services	515,164	592,768	244,132	221,785
Rent	460,466	915,638	793,671	-
Supplies - medical	1,193,706	2,484,375	1,774,994	-
Supplies - office	80,541	272,119	193,918	-
Taxes - property	4,721	3,019	3,001	-
Telephone	160,438	413,838	325,969	-
Travel	33,985	111,431	125,797	-
Occupancy costs	-	-	-	1,399,642
Physician, medical supplies and other clinic service	-	-	-	3,153,186
Travel, training and conferences	37,369	-	-	337,536
Utilities	69,364	113,722	117,411	-
Total expenses	<u>8,520,782</u>	<u>18,166,809</u>	<u>16,400,130</u>	<u>15,697,123</u>
Increased (decrease) in unrestricted net assets	1,295,329	(1,318,770)	1,439,973	(419,959)
Unrestricted net assets, beginning of year	<u>6,902,832</u>	<u>8,221,602</u>	<u>6,781,629</u>	<u>7,201,588</u>
Unrestricted net assets, end of year	<u>\$ 8,198,161</u>	<u>\$ 6,902,832</u>	<u>\$ 8,221,602</u>	<u>\$ 6,781,629</u>

* Fiscal year audit 2001 consolidated several expense line items into the "miscellaneous" category.

Planned Parenthood Los Angeles

Balance Sheet

	As of Dec. 31,	As of June 30,		
	2003 (unaudited)	2003	2002	2001
Assets				
Current assets:				
Cash and cash equivalent	\$ 3,755,400	\$ 1,268,570	\$ 949,524	\$ 800,917
Interest receivable	-	-	-	33,267
Pledges and contributions receivable	645,569	2,143,500	-	-
Investments	4,655,312	4,514,842	4,552,331	4,570,179
Accounts receivable, net	840,567	1,315,000	2,007,561	1,056,075
Prepaid expenses and other current assets	(4,953)	62,128	74,808	149,533
Medical and office supplies inventory	535,616	723,539	899,748	729,544
Total current assets	10,427,511	10,027,579	8,483,972	7,339,515
Pledges and contributions receivable, net	619,846	241,182	-	-
Note receivable	-	-	26,445	27,812
Property and equipment, net	2,302,093	2,528,527	2,818,461	2,908,582
Total assets	\$ 13,349,450	\$ 12,797,288	\$ 11,328,878	\$ 10,275,909
Liabilities and net assets				
Current liabilities:				
Current portion of note payable	\$ 22,411	\$ 22,411	\$ 20,490	-
Current portion of capital lease obligations	11,146	33,030	37,814	-
Accounts payable and accrued expenses	227,989	1,032,198	681,227	603,875
Accrued payroll and compensated absences	946,668	801,746	649,294	615,266
Accrued vacancy	66,433	117,204	-	-
Total current liabilities	1,274,647	2,006,589	1,388,825	1,219,141
Long term liabilities:				
Note payable, net of current portion	283,539	294,494	316,904	356,127
Capital lease obligations, net of current portion	-	-	33,030	106,048
Pension liability	-	-	44,077	51,776
Total liabilities	1,558,186	2,301,083	1,782,836	1,733,092
Net assets:				
Unrestricted:				
General	6,155,090	4,860,031	7,909,102	6,781,629
Board-designated	1,923,597	1,923,597	312,500	-
Temporarily restricted	1,705,577	1,705,577	1,324,440	1,761,188
Permanently restricted	2,007,000	2,007,000	-	-
Total net assets	11,791,264	10,496,205	9,546,042	8,542,817
Total liabilities and net assets	\$ 13,349,450	\$ 12,797,288	\$ 11,328,878	\$ 10,275,909

Financial Ratios:

	Projected Dec. 31, 2003	Proforma ⁽¹⁾ FYE 2003		
Debt Service Coverage (x)	21.86	(3.83)	(6.93)	22.48
Debt/Unrestricted Net Assets (x)		0.11	0.05	0.07
Margin (%)			(8.10%)	8.07%
Current Ratio (x)			5.00	6.11
				6.02

(1) Recalculates June 2003 audited results to include the impact of the HELP II loan financing.

Financial Discussion:

PPLA's operating cash flow fluctuates significantly from fiscal year to year, but overall operations are successful, as its net asset base has increased during our review period from \$8.5 million in 2001 to \$10.4 million in 2003.

The most recent audited fiscal year 2003 exhibits an operating loss of \$1.3 million. This loss results from a decline of \$600,000 in clinic/counseling fees, plus government grant revenues declined by \$700,000. Clinic fees declined despite higher overall patient visit numbers. Management indicates this relates to a significant increase in emergency visits and other visits requiring less staff time, which generated less revenue. Government grant revenues declined due to the termination of funding for teen educational programs and one billing cycle, which was pushed into the next fiscal year. Management indicates that PPLA is on track to a balanced budget due to staff changes and improved productivity. In addition, PPLA has raised approximately \$3.2 million in capital gifts that includes approximately \$500,000 received for the new South Los Angeles Clinic.

Operating expenses increased by \$1.74 million, as salaries were modestly higher by \$150,000 or 2% and employee benefits jumped by \$185,000 or 24%. Management indicated that PPLA also incurred large year-end inventory supplies write-offs, plus Bixby Boyle Heights clinic incurred one-time start-up costs, without receipt of corresponding revenues.

During fiscal year 2002, PPLA experienced a sharp increase in net income, with a gain of \$1.4 million compared to a loss of \$419,000 in fiscal year 2001. Revenues fluctuated as an uneven pattern of grant receipts from foundations and a major gala event was not repeated in the last two fiscal years. Patient donations, investment income and contributions were negatively affected by the economy. Nevertheless, a steady growth in patient visits and clinic revenues also with a significant effort to recapture under-billed services resulted in a significant improvement of clinic and counseling income relative to clinic and counseling direct costs. The growth in patient numbers was fueled partly by the ramping up to full utilization of the new Whittier clinic during this period and partly by an effort to structure hours at all facilities more conveniently for patients.

The new South Los Angeles Clinic is anticipated to open in Spring 2004. The clinic is being renovated with HELP II funding and is expected to achieve breakeven operating results on its direct costs within 19 months. The agency is currently raising targeted funds from donors to cover any anticipated operating shortfall during the initial 19 months. Thereafter, it will be self-sufficient and begin to contribute to covering indirect clinic overhead. The new South Los Angeles clinic will be Planned Parenthood's 13th clinic and is expected to increase patient visits by 8,000 per year. The new clinic will not require additional staff in the indirect agency support function.

PPLA's balance sheet is strong with significant financial resources, minimal long-term debt and very strong debt service coverage.

PPLA's long-term debt is moderate with approximately \$295,000 compared to \$6.7 million in unrestricted net assets, leading to a favorable debt to unrestricted net assets ratio of .05x. The proforma debt service coverage ratio is a -3.83x. However based on interim numbers, it is a strong 21.86x. This indicates that PPLA should be able handle the debt service payments for the HELP II loan. Staff was also comfortable with PPLA's ability to repay this loan due to PPLA's cash position of \$1.2 million and total net assets in excess of \$10 million.

III. UTILIZATION STATISTICS:

**Planned Parenthood Los Angeles
(Number of Services Provided)**

<u>Types of Services</u>	<u>Fiscal year ending June 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Family Planning			
Contraceptive services	51,359	49,172	47,636
Chlamydia tests	32,851	32,686	33,946
Gonorrhea tests	29,041	29,854	30,095
HIV tests	340	1,310	1,287
Pap smear test	27,945	27,486	27,902
Colposcopy test	830	926	1,081
LEEP test	82	103	120
Pregnancy tests	15,467	20,376	22,193
Preventative gyn Exams	40,129	41,075	41,277
Breast Exams	28,729	31,810	32,171
	39,416	40,396	40,781
Surgical services			
Abortion services	9,042	10,067	9,947
Cryosurgery	18	23	29
Sterilization services			
Tubal ligations	17	26	4
Vasectomies	70	88	99

IV. ORGANIZATION:

Background: Planned Parenthood Los Angeles was founded in 1965 by volunteers who were alarmed by the lack of reproductive health care services in Los Angeles County. Initially providing counseling services, then expanding to family planning services, PPLA has grown into the largest reproductive health care and responsible sex education provider in the county. The mission of PPLA is to provide easy and affordable access to a full range of quality reproductive health care and sexual health information through patient services, education and advocacy. PPLA serves everyone regardless of his or her ability to pay for services.

PPLA is a fully licensed non-profit 501(c)(3) community-based reproductive health care and education organization serving the people of Los Angeles County. Through PPLA's mobile clinic and 12 health centers in Boyle Heights, Burbank, Canoga Park, East Los Angeles, El Monte, Hollywood, Lakewood, Lawndale, Pomona, Santa Monica, Van Nuys and Whittier, PPLA provided 107,000 patient visits this year compared to 105,000 patients last year.

PPLA provides all FDA-approved contraception methods, gynecological exams, cervical cancer detection, breast exams, pregnancy testing and all-options counseling, prenatal care, adoption referrals, sexually transmitted infection detection and treatment, colposcopy, cryosurgery, loop electrical excision procedure (LEEP), mid-life services, pregnancy termination and male services. Over 97% of our patients are at or below 250% of the federal poverty level.

In addition to reproductive health care services, PPLA provides responsible sex education to nearly 100,000 individuals annually. PPLA runs 3 culturally tailored education programs, in addition to our school-based programs in both middle and high schools in the Los Angeles Unified School District. These programs are specifically designed to address multiple issues affecting adults and teens throughout the county.

PPLA employs both clinical and non-clinical staff to serve the needs of clients. Currently, there are 221 employees, comprised of 151 full-time, 42 part-time, and 28 per diem employees.

Approximately 27 of the employees are fully licensed clinical practitioners who staff the clinics. The clinicians include the Medical director, who is a California licensed physician and surgeon. Licensed nursing staff includes the Vice President of Client Service, the Director of Medical Management, 44 licensed Nurse Practitioners, and 13 Registered Nurses. To ensure that education is ongoing and that clinical staff is updated regarding best practices, PPLA employs two trainers who provide orientation to all nursing staff prior to direct contact with our patients. Since maintaining high quality services is one of the major goals, PPLA also employs nurses to work directly in quality and risk management capacities and to identify and address opportunities for improvement in the care PPLA provides.

PPLA is governed by a 48 member Board of Directors, all of whom donate time and money to ensure the successful operation of PPLA. Nearly 200 members comprise The Planned Parenthood Los Angeles Guild, which is dedicated to raising vital funding for PPLA's mission and services.

Last year, Guild members raised over \$520,000 through its two primary events, and donated and additional \$15,000 to PPLA by the end of the fiscal year. The Planned Parenthood Young Professionals Group was established for young people and build a sense of commitment to PPLA's mission. The Planned Parenthood Young Professionals Group currently has 270 members. In addition, there are three other Friends groups who participate as needed in PPLA activities. In addition, 464 volunteers worked in education, clinical, development and public affairs departments on activities from envelope stuffing to advocating for public policies that support accessible and affordable reproductive health care. These volunteers donated 22,205 hours.

Licenses: PPLA is licensed as a community clinic by the Department of Health Services.

Service Area and Competition:

Health Facility Location	No. of Patients	Market Share (%)	Estimated Distance Away
Community Build Los Angeles	305	Less than 1%	.93 miles
Hubert H Humphrey Comprehensive HC	2,847	2%	2.65 miles
South Central Family Health Center	8,000	5%	4.89 miles
H. Claude Hudson CHC	3,729	2%	5.08 miles
Dr. Ruth Ann Temple Health Center	20,000	12%	6.04 miles
Women's Health Center	2,693	2%	7.11 miles
THE Clinic	20,000	12%	7.47 miles
Planned Parenthood Los Angeles	107,054	65%	N/A

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/03 (audited)*	Estimated Amount Outstanding After Proposed Financing
Existing:			
Real Estate Loan, (Private lender) (1550 No. Garey, Pomona)	\$411,000	\$316,905	\$316,905
Proposed:			
CHFFA HELP II Loan, 2004		N/A	400,000
TOTAL DEBT		\$316,905	\$716,905

*Includes current portion.

VI. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

PPLA has provided a description of its savings pass through in **Exhibit A**.

VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) to advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, and (b) and to post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

PPLA has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$400,000 for a term not to exceed 5 years for Planned Parenthood Los Angeles subject to the standard HELP II loan provisions.